FUNCTION 400: TRANSPORTATION

MAJOR SPENDING CHANGES PROPOSED FOR BUDGET FUNCTION 400: TRANSPORTATION (By fiscal year, outlays in billions of dollars)

Item	1987	1988	1989	1990	1991	Cumulative Five-Year Changes
CBO Baseline	27.4	27.4	28.1	28.8	29.6	
Proposed Changes						
Mass Transit	-0.7	-1.0	-1.4	-1.6	-2.2	-6.9
Federal-aid Highways	-0.2	-0.9	-1.3	-1.3	-1.8	-5.5
Amtrak	-0.6	-0.5	-0.6	-0.7	-0.7	-3.1
Grants-in-aid to Airports	a/	-0.2	-0.3	-0.4	-0.5	-1.4
Coast Guard Operations	0.2	0.2	0.2	0.2	0.2	1.0
Coast Guard User Fees	-0.2	-0.5	-0.5	-0.5	-0.5	-2.1
Ocean Freight Differential	-0.1	-0.2	-0.3	-0.3	-0.3	-1.2
Other	-0.2	a/	a/	a/	-0.1	-0.3
Total	-1.8	-3.0	-4.1	-4.7	-5.9	-19.5
President's 1987 Budget as Estimated by CBO	25.6	24.3	23.9	24.2	23.7	
President's 1987 Budget	25.5	24.1	23.4	23.7	23.1	
CBO Reestimates	0.1	0.2	0.5	0.5	0.6	1.9

a. Less than $50 million.

Proposed Policy Changes

The Administration is proposing to reduce transportation spending below the CBO baseline in all years, with total savings of almost $20 billion over the 1987-1991 period. The budget includes a 20 percent cut ($6.2 billion) from the baseline in 1987 budget authority, with first-year outlay savings of $1.8 billion.

Ground Transportation. Most of the outlay savings in this function would occur in ground transportation programs, with the largest reductions in mass transit. The Administration proposes to limit authorizations and obligations for transit programs to $1.2 billion annually, the amount that is generated by 1 cent of the 9-cent-per-gallon gasoline tax and earmarked for transit. This represents a decrease of $2.3 billion from the 1986 level. Of these funds, $1.1 billion would go to states as part of a new block grant proposal, and would be available for spending either on transit or highway projects. The remaining money would be spent on administration, research, and planning. Only small cities and rural areas would be able to use funds for operating assistance. In addition, the Administration would rescind over $500 million in contract authority in 1986 from funds earmarked for construction of new transit systems. Outlay savings in transit programs would total $6.9 billion over the 1987-1991 period.

The budget also includes reductions in the Federal-aid Highways program, reflecting the Administration's proposal for reauthorizing highway programs through 1990. Total obligations would be reduced from $13.2 billion in 1986 to $12.8 billion annually in 1987 through 1990, resulting in outlay savings of $5.5 billion over the five-year period. Annual budget authority for programs funded from the highway trust fund would be limited to estimated annual receipts, not including interest earned by the trust fund. The Administration proposes to create a $3.3 billion block grant program for states, using the $1.1 billion in transit funds mentioned above and $2.2 billion in highway funds. The highway portion of the grant comes from funds formerly earmarked for construction and rehabilitation of roads on the secondary and urban systems, as well as bridges not on the primary system.

The budget also includes five-year savings of $3.1 billion from eliminating all subsidies for Amtrak, which would reduce outlays by approximately $600 million per year. A similar proposal was made in last year's budget.

Air Transportation. The President's budget proposes only slight decreases in spending for aviation programs in 1987, but would reduce outlays by almost $1.5 billion over the five-year period. Most of the reductions would come from the grants-in-aid program for airport capital improvements. Under the President's budget, the obligation ceiling for airport grants would be reduced from $885 million in 1986 to $712 million in 1987, and then further reduced to $500 million annually in 1988 through 1991. Contract authority would also be reduced from the 1987 level of $1.0 billion (as authorized by Public Law 97-248), to $500 million per year in 1988 through 1991. Although spending for Federal Aviation Administration operations would be maintained at levels close to the baseline, the Administration proposes to derive 75 percent of the funds from the Airport and Airway Trust Fund, compared with only 16 percent in 1986.

Water Transportation. The budget reflects a net reduction of $2.5 billion in spending on water transportation from 1987 through 1991. As in previous budgets, the President is proposing user fees for certain Coast Guard services, yielding estimated receipts of $238 million in 1987 and a total of $2.1 billion over the 1987-1991 period. These savings would be partially offset by increases in Coast Guard operating expenses of about $0.2 billion annually, for capital investments and an increased emphasis on drug law enforcement and defense readiness activities.

The President is also proposing to terminate the new ocean freight differential program, which was established pursuant to the Food Security Act of 1985 (Public Law 99-198). The legislation increased from 50 percent to 75 percent the proportion of agricultural commodities shipped under certain programs that must be carried on U.S.-flag vessels. Termination of this expanded cargo preference requirement would result in estimated savings of $0.1 billion in 1987 and $1.2 billion over the 1987-1991 period.

CBO Reestimates

CBO estimates that spending under the Administration's proposed policy changes would be $1.9 billion higher over the five-year period than estimated in the budget. Much of this difference results from CBO's higher estimates of defaults on loans made by the Federal Ship Financing Fund (approximately $1 billion higher than the President's estimate over the five years). Other changes result from different spending rates, especially for aviation grants-in-aid and mass transit formula grants.

FUNCTION 450: COMMUNITY AND REGIONAL DEVELOPMENT

MAJOR SPENDING CHANGES PROPOSED FOR BUDGET FUNCTION 450: COMMUNITY AND REGIONAL DEVELOPMENT
(By fiscal year, outlays in billions of dollars)

Item	1987	1988	1989	1990	1991	Cumulative Five-Year Changes
CBO Baseline	7.7	7.8	8.0	8.0	8.2	
Proposed Changes						
Community Development Block Grants	a/	-0.2	-0.5	-0.6	-0.6	-1.9
Urban Development Action Grants	a/	-0.1	-0.2	-0.3	-0.3	-0.9
Other Community Development Programs	-0.2	-0.3	-0.3	-0.4	-0.4	-1.6
Rural Development Insurance Fund	-0.1	-0.2	-0.3	-0.4	-0.5	-1.5
Economic Development Assistance Programs	-0.1	-0.1	-0.2	-0.2	-0.2	-0.8
Other Regional Development Programs	a/	-0.2	-0.3	-0.5	-0.6	-1.6
Small Business Administration Disaster Loans	-0.7	-1.0	-1.0	-1.0	-0.5	-4.2
Other Disaster Programs	-0.3	-0.2	-0.2	-0.2	-0.2	-1.1
Total	-1.4	-2.4	-3.1	-3.5	-3.3	-13.7
President's 1987 Budget as Estimated by CBO	6.3	5.4	4.9	4.5	4.9	
President's 1987 Budget	6.5	5.5	5.0	5.2	5.2	
CBO Reestimates	-0.3	a/	-0.1	-0.7	-0.3	-1.3

a. Less than $50 million.

Proposed Policy Changes

As in previous budgets, the 1987 budget proposes major reductions in spending on community and regional development. Many of the programs within this function are proposed for elimination, while others are slated for large reductions. Total savings are estimated to be $13.7 billion over the 1987-1991 period, a reduction of about 35 percent in spending in this function. The President's proposals are based on the view that many of the benefits provided by these programs are local in nature, and, therefore, that the costs should be borne locally as well.

Community Development. About $4.4 billion of the five-year savings is in community development programs, which are aimed at urban areas. Funding for community development block grants (CDBGs) would be reduced by between $500 million and $600 million per year, beginning with a deferral of $500 million of 1986 budget authority. Urban development action grants (UDAGs) would be eliminated, beginning in 1987, after a rescission of $200 million of 1986 authority.

Rental housing development grants (HODAGs), rental rehabilitation grants, Section 312 rehabilitation loans, and CDBG Section 108 loans would also be eliminated in 1987. Partial rescissions of 1986 budget authority for some of these programs are also proposed, and reductions would be made in a number of smaller urban development programs. By 1991, community development spending would be 30 percent below CBO's baseline levels, and would consist almost entirely of community development block grants.

Regional Development. Over the 1987-1991 period, the President's budget would result in estimated savings of $3.9 billion in regional development programs, which are largely aimed at rural areas. Direct loan and loan guarantee activities of the Rural Development Insurance Fund (RDIF) would be terminated in 1987, and $100 million of the outstanding portfolio of direct loans would be sold to the public each year for five years. (This is part of a pilot program to determine the feasibility of such sales.) Economic Development Administration programs would also be eliminated, after a $100 million rescission of 1986 budget authority. The President is also proposing to eliminate rural water and waste disposal grants, the Appalachian Regional Commission and Appalachian regional development programs, and purchases of capital stock of the Rural Telephone Bank. New loan obligations by the Rural Telephone Bank would be phased out by fiscal year 1990, and spending would be reduced for the Tennessee Valley Authority, Bureau of Indian Affairs operations and construction programs, and many smaller programs. A rescission of about $80 million of fiscal year 1986 budget authority for Appalachian regional development is also proposed. By 1991, regional development outlays would be 45 percent below baseline levels.

Disaster Relief and Insurance. The President's proposals would reduce disaster assistance by $5.3 billion over the 1987-1991 period. Under the President's proposed budget, the Small Business Administration (SBA) would make no new disaster loans beginning in 1987, and the outstanding portfolio would be sold over four years. Outstanding loans would be administered by the Department of the Treasury, and the receipts from loan sales, as well as the repayments on the outstanding unsold portfolio, would accrue to the Treasury. The budget also includes proposals to raise flood insurance premiums in 1986 and 1987 and to increase the share of disaster costs expected to be borne by state and local governments. The flood plain management program would be funded from flood insurance premiums, and the U.S. Fire Administration would be eliminated.

CBO Reestimates

The roughly $700 million difference in fiscal year 1990 is primarily attributable to CBO's much higher estimate of receipts from the sale of SBA disaster loans. Otherwise, CBO's outlay estimates do not differ significantly from the Administration's estimates for this function.

Credit Programs

The CBO baseline projects direct loan obligations of $2.4 billion in 1991, largely for SBA disaster loans and rural development loans of the RDIF. As shown in the table on the following page, the President is proposing to end virtually all lending activity in this function.

MAJOR CREDIT PROGRAM CHANGES PROPOSED FOR FUNCTION 450: COMMUNITY AND REGIONAL DEVELOPMENT
(By fiscal year, in billions of dollars)

Item	1987	1988	1989	1990	1991	Cumulative Five-Year Changes
			Direct Loan Obligations			
CBO Baseline	1.7	2.3	2.2	2.3	2.4	10.9
Proposed Changes						
Rural Development Insurance Fund	-0.4	-0.5	-0.5	-0.5	-0.5	-2.4
Rural Telephone Bank	a/	-0.1	-0.2	-0.2	-0.2	-0.7
Small Business Administration (Disaster Loans)	-0.7	-1.1	-1.1	-1.1	-1.2	-5.2
Community Development Block Grant (Section 108)	-0.2	-0.2	-0.2	-0.2	-0.2	-0.8
Other	a/	a/	a/	-0.3	-0.3	-0.6
Total	-1.3	-1.9	-2.0	-2.3	-2.4	-9.7
President's 1987 Budget as Estimated by CBO	0.4	0.4	0.2	a/	a/	1.2

a. Less than $50 million.

FUNCTION 500: EDUCATION, TRAINING, EMPLOYMENT, AND SOCIAL SERVICES

MAJOR SPENDING CHANGES PROPOSED FOR BUDGET FUNCTION 500: EDUCATION, TRAINING, EMPLOYMENT, AND SOCIAL SERVICES
(By fiscal year, outlays in billions of dollars)

Item	1987	1988	1989	1990	1991	Cumulative Five-Year Changes
CBO Baseline	30.9	32.2	33.4	34.8	36.3	
Proposed Changes						
Elementary and Secondary Education	-0.4	-0.8	-1.3	-1.9	-2.4	-6.8
Higher Education						
Student Aid	-0.6	-1.4	-1.7	-2.0	-2.4	-8.2
Guaranteed Student Loans	-0.8	-1.1	-1.7	-1.8	-1.8	-7.2
College Housing	-0.6	-0.4	a/	a/	a/	-1.0
Other Education	-0.1	-0.4	-0.5	-0.7	-0.7	-2.4
Training and Employment	-0.6	-0.8	-1.1	-1.4	-1.8	-5.7
Social Services	-0.5	-0.8	-1.0	-1.2	-1.5	-5.0
Total	-3.6	-5.7	-7.4	-9.0	-10.6	-36.3
President's 1987 Budget as Estimated by CBO	27.3	26.5	26.0	25.7	25.7	
President's 1987 Budget	27.4	26.3	26.4	26.0	26.0	
CBO Reestimates	-0.1	0.1	-0.5	-0.3	-0.3	-1.0

a. Less than $50 million.

Proposed Policy Changes

The Administration proposes major reductions in federal funding for education, training, employment, and social service programs. In 1987, spending would be reduced by $3.6 billion or 12 percent below CBO's baseline. By 1991, spending would be reduced $10.6 billion or about one-third. Proposed changes include 1986 rescissions totaling $1.8 billion and proposals to eliminate or substantially reduce many of the major programs in this function. No major programs are increased in the President's request.

Elementary and Secondary Education. The President proposes rescinding $330 million in funding for elementary and secondary education grant programs in 1986 and reducing spending by 5 percent in 1987 and 25 percent in 1991. The Administration's request maintains funding for disadvantaged students at or near 1986 levels, and, as a result, elementary and secondary education grants are reduced by somewhat less than the average reduction in the function.

Higher Education. The Administration proposes major reforms and reductions for higher education programs, which would require many families and students to increase their financial commitment to higher education. Only the neediest students would continue to receive their current levels of federal assistance. Under the Administration's request, federal spending for student aid grants and guaranteed student loans would be reduced by 17 percent in 1987 and 44 percent in 1991.

In 1986, $450 million in student aid grants is proposed for rescission. In addition, the President proposes to reduce the Pell grant program by 17 percent in 1987 and 35 percent in 1991. Expected contributions from the family would be increased, and benefits would be targeted toward students from families with incomes below $23,000. Remaining student aid grants would be eliminated, restructured, or reduced.

The President is requesting 20 major and other minor changes to the Guaranteed Student Loan (GSL) program. These changes would reduce the number of eligible students and federal subsidies to those students. They would also reduce yields to lenders and reduce payments to state guarantee agencies. Spending in 1987 would decline by 22 percent and in 1991 by 60 percent.

The specific changes proposed in the GSL program include a revised financial needs test that would further target program eligibility. Over 1 million students—about 25 percent of current borrowers—would have their loan levels reduced or eliminated from the subsidized regular GSL program as a result of the more restrictive financial needs test. In-school interest subsidies would also be eliminated; students eligible for a loan would be required to pay all the interest on the loan, which would be made at a market rate of interest. Loan limits would be increased to cover the cost of interest payments. The current 5 percent origination fee would continue to be collected, but it would be used as an insurance fee against default. The present supplemental loan program for parents and independent students would be expanded to include all students, and the federal interest subsidies on those loans would be eliminated by charging borrowers a market rate of interest. The borrowers in this supplemental loan program would be charged a 1 percent insurance fee against default. Yields to private lenders would be changed from a variable rate tied quarterly to the 91-day Treasury bill rate to a lower-yielding fixed rate. Private lenders and state guarantee agencies would be required to pay at least 10 percent of default claims on future loans, and state agencies would no longer receive an administrative allowance.

The President also proposes selling $2.1 billion in college housing loans to private investors during 1987 and 1988. These loan assets would be sold at a discount and are estimated to yield about $1.0 billion. The federal government would lose approximately $2.6 billion in the receipts from these loans over the next 20 years.

Other Education. Other education activities, which currently account for $2 billion of spending in this function, would be reduced by 7 percent in 1987 and by one-third in 1991. In 1986, $250 million in grants is proposed for rescission. In 1987 and beyond, reductions result from the elimination of funding for libraries, public telecommunication, and museum services. The amount of institutional aid given to colleges would be reduced by 45 percent, and most of the remaining programs would be maintained at or near their 1986 levels.

Training and Employment. Under the President's proposals, baseline spending for training and employment programs would decline by 12 percent in 1987 and 29 percent by 1991. In 1986, $450 million in grants are proposed for rescission. Basic training grants would be funded at or near 1986 levels throughout the period 1987-1991. Funding for summer youth employment, job corps, and assistance for dislocated workers would be reduced by between 50 percent and 60 percent over the projection period. In addition, the Work Incentive (WIN) program would be eliminated; work requirements would be picked up under the Aid to Families with Dependent Children program with 50 percent federal matching rates.

Social Services. The Administration proposes reducing current spending of $7.4 billion for social service programs by 7 percent in 1987 and 17 percent in 1991. In 1986, rescissions would total $300 million. In 1987 and the out-years, funding for the community services block grant would be eliminated, and grants for vocational rehabilitation programs would be reduced 9 percent in 1987 and 23 percent by 1991. Funding of the foster care program would be fixed at its 1984 level adjusted by changes in the Consumer Price Index (CPI), and the remaining social service programs would be funded at or near their 1986 levels.

CBO Reestimates

Most of the CBO reestimate of the President's budget in this function occurs in the GSL program. CBO projects lower loan volume and related budget costs including interest subsidies and default costs.

Credit Programs

Direct Loan Obligations. The President proposes to reduce direct loan obligations under this function by $700 million over the next five years. In the GSL program, federal default claim payments are considered direct loans of the federal government. The President has proposed two major GSL program changes that would result in lower federal default payments. First, program eligibility and thus loan volume would be reduced by requiring a more restrictive financial needs test. Second, private lenders and state guarantee agencies would be required to assume responsibility for at least 10 percent of future default claims, thus lowering federal default payments. In 1991, federal default payments would be reduced by an estimated $225 million.

The President has also proposed to rescind the 1986 loan obligation authority of $57 million for the college housing program and to terminate the authority in the out-years. In addition, the President proposes to sell existing loans to private investors.

As part of its student aid reform package, the Administration has proposed establishing a new, unsubsidized direct loan program to replace the National Direct Student Loan (NDSL) program. This proposed income-contingent loan program would allow borrower repayments to vary with earnings after school. The President proposes to finance this new program at higher levels than the current NDSL program contribution rate.

Guaranteed Loan Commitments. The Administration's request for the GSL program includes several reforms that would lower new guaranteed loan volume under the subsidized regular loan program and would also transfer some of the volume to the proposed unsubsidized supplemental program. These changes would reduce new guarantees by $1.4 billion over the next five years.

As a result of the more restrictive needs test and reduced interest subsidies in the GSL program, loan volume would decrease an estimated $1.6 billion in 1987 and by larger amounts in the out-years. This reduction of loan volume would be partially offset by allowing eligible students to increase their borrowing to cover the cost of interest while they are in school. Also, students made ineligible by the proposed needs test in the regular program could transfer to the supplemental loan program.

budget proposes a single match rate of 50 percent for state and local administrative costs, which would eliminate higher special matching rates. In 1987, this would save an additional $0.3 billion. After 1987, the federal cap would grow by the increase in the medical care component of the CPI. A similar proposal was made last year.

States would also be required to seek third-party reimbursements, reform prescription drug reimbursement, and require second surgical opinion and inpatient hospital preadmission review programs. These changes would not add to Medicaid savings because of the program cap.

Federal Employees Health Benefits. The Administration is again proposing to replace the formula by which the government contribution for health insurance premiums is determined with a fixed dollar amount that would be adjusted each year by the change in the implicit price deflator for the gross national product (GNP). The current 75 percent limit on government contributions for insurance premiums would be dropped, and enrollees could receive rebates of up to 40 percent of the government contribution if they selected plans costing less than the fixed government payment. The Administration also proposes to have the U.S. Postal Service and the District of Columbia pay the total government share of their employees' health insurance, and to discontinue payments to insurance companies from the Employees Health Benefits contingency reserves. Finally, the Administration would require insurance companies to return their excess reserves to the federal government in 1987.

Public Health Service. Funding for the Public Health Service is frozen through 1991 at a level slightly below the 1986 level. Half of the savings would result from a freeze on research funding for the National Institutes of Health (NIH). The President's proposal would maintain 18,000 NIH research grants in each year, about 800 fewer grants than were supported by the 1986 appropriation. Rescissions are requested in 1986 for NIH in order to reach the proposed grant level by 1987.

The President's budget would rescind more than $0.4 billion in 1986, including funds for NIH, from funds appropriated for the Public Health Service. The Administration also proposes to eliminate health professions education and training programs in 1987 as well as funding for construction of Indian health facilities.

Other. In other health-related areas, the Administration proposes to charge fees for services provided by the Food Safety and Inspection Service (FSIS). Fees would be set to recover the full cost of FSIS activities, thereby reducing outlays in the President's budget by $0.3 billion to $0.4 billion below the CBO baseline in each year.

CBO Reestimates

CBO has reestimated upward the President's budget for the Medicaid program by $2.4 billion over the five years. CBO projects higher price increases for medical care than does the Administration. Since the Administration proposes to limit Medicaid growth by the growth in the medical care component of the CPI, CBO projects larger Medicaid spending.

FUNCTION 570: MEDICARE

MAJOR SPENDING CHANGES PROPOSED FOR BUDGET FUNCTION 570: MEDICARE (By fiscal year, outlays in billions of dollars)

Item	1987	1988	1989	1990	1991	Cumulative Five-Year Changes
CBO Baseline	75.3	84.6	94.8	106.2	119.0	
Proposed Changes						
Beneficiary Costs						
SMI Premiums	-0.9	-2.0	-3.4	-5.0	-6.8	-18.0
Private Coverage for Aged and Disabled	-0.5	-0.6	-0.7	-0.8	-0.9	-3.4
Deductible	-0.3	-0.4	-0.5	-0.6	-0.7	-2.4
Eligibility	-0.2	-0.3	-0.3	-0.4	-0.4	-1.6
Home Health Copayment	-0.1	-0.1	-0.1	-0.1	-0.2	-0.6
Subtotal	-1.9	-3.4	-5.0	-6.8	-8.9	-26.0
Hospital Reimbursements						
Capital	-0.4	-1.4	-1.9	-2.8	-3.5	-10.1
Medical Education						
Indirect costs	-1.4	-1.8	-2.0	-2.2	-2.4	-9.8
Direct costs	-0.4	-0.5	-0.6	-0.7	-0.8	-3.0
Interaction	0.0	0.1	0.1	0.2	0.2	0.6
Subtotal	-2.2	-3.7	-4.4	-5.5	-6.5	-22.2
Reimbursements to Other Providers						
Physicians	-0.4	-0.5	-0.6	-0.6	-0.7	-2.9
Other	-0.1	-0.2	-0.3	-0.5	-0.6	-1.7
Subtotal	-0.5	-0.7	-0.9	-1.1	-1.3	-4.6
Total	-4.7	-7.8	-10.3	-13.4	-16.7	-52.8
President's 1987 Budget as Estimated by CBO	70.6	76.9	84.5	92.8	102.3	
President's 1987 Budget	70.2	76.0	83.0	90.5	98.4	
CBO Reestimates	0.4	0.8	1.4	2.3	3.9	8.9

Proposed Policy Changes

The President proposes a number of changes in Medicare that would reduce spending relative to the CBO baseline by $4.7 billion in 1987 and $52.8 billion over the projection period. Many of the proposals have been included in similar forms in previous budgets. The 1987 budget, however, includes a major new initiative to reimburse hospitals for capital costs.

Almost half of the federal savings would come from proposals to increase the costs paid by beneficiaries or their insurance companies. Another 43 percent of the savings would be achieved by reducing reimbursements to hospitals. The remaining savings would result from reducing reimbursements to physicians, laboratories, or other providers of medical services.

Beneficiary Costs. Out-of-pocket costs to beneficiaries would be increased significantly through proposed increases in the SMI premiums. The President's proposal would establish separate premiums for individuals and third-party payers, thereby saving $18 billion over five years. A related proposal has been included in previous budgets.

For individuals, the premium would be gradually increased over the next five years from 25 percent to 35 percent of program costs. For calendar year 1987, for example, the monthly premium would be increased by $1.40 above the baseline premium of $18.10.

For third-party payers who buy Medicare Part B coverage, the premiums would be set at 50 percent of costs. This proposal would have the greatest impact on the states that pay the Medicare premium for their Medicaid beneficiaries. For calendar year 1987, the monthly premium paid by third-party payers would be doubled. The projected monthly baseline premium in 1991 of $21.30 would be increased to $38.50 for individuals and to $54.90 for third-party payers.

The Administration also proposes to require employers to offer the same insurance coverage to employees over age 69 that they provide to other employees. The Congress recently enacted legislation to require such coverage for employees aged 65 through 69. The proposal would make Medicare the secondary payer for any worker choosing to accept the insurance coverage offered by his or her employer. The same opportunity for insurance coverage would also be required for disabled or aged beneficiaries who have access to health insurance coverage through their spouse's employer. Over one-half of the $3.4 billion five-year savings would be achieved by changing the insurance coverage of the disabled.

The President again proposes raising the Medicare Part B deductible from $75 to $100 effective January 1, 1987, and indexing the deductible to annual changes in the Medicare Economic Index (MEI) thereafter. The deductible would be rounded to the nearest whole dollar. The estimated deductible under this proposal for 1987 through 1991, respectively, would be $100, $103, $107, $111, and $115.

The other proposed changes that would increase beneficiary costs have also been included in past Administration budgets. Eligibility for Medicare would be delayed by one full month, saving $1.6 billion over the projection period. Beneficiaries who have not been hospitalized but use home health care would be required to make a per-visit copayment of 1 percent of the hospital deductible (or about $5 per visit in 1987).

Hospital Reimbursements. The President's budget includes several proposals to reduce reimbursements to hospitals, saving $22.2 billion over the next five years. Almost one-half of these savings would result from the Administration's proposal, through regulation, to phase capital reimbursement into a national rate per admission by 1991. The Administration would also disallow reimbursement for return-on-equity payments and would change the treatment of interest earned on funded depreciation. This change would be phased in by 1990. CBO estimates that the proposal affecting capital would reduce reimbursements to hospitals by over 40 percent in 1991. CBO's savings estimates for this proposal are smaller than the Administration's because of CBO's lower projected growth rates in Medicare capital reimbursements.

The Administration would also reduce Medicare's reimbursement for both the direct and indirect costs of medical education. These changes require both legislative and regulatory action and would produce savings of $12.8 billion over five years. The change in direct medical reimbursements would eliminate payments for allied health professionals, nursing training programs, and classroom-related expenses for residency programs. Hospital-specific limits on residency expenditures would also be set. The change in indirect payments would alter the formula for reimbursement and would cut the indirect teaching adjustment in half. CBO's estimates of savings from the indirect proposals are higher than the Administration's because of higher growth rate assumptions in hospital spending and therefore higher indirect medical education add-on costs.

The proposed reform in capital reimbursement interacts with the proposal to reduce reimbursement for indirect education. Indirect education costs are calculated as a function of prospective payments. Including capital in prospective payment rates would thus increase reimbursements for indirect education. This interaction would reduce the savings from enacting both proposals by $0.6 billion over the projection period.

Reimbursements to Other Providers. Various proposals to reduce reimbursements to physicians, laboratories, and other providers of medical services would save an estimated $4.6 billion over the 1987-1991 period.

Five proposals would affect reimbursements to physicians. Payments for selected physician procedures would be reduced where technological and productivity advances, or geographic variations, indicate a cost below existing Medicare rates. Payments would be limited both to physicians who furnish standby anesthesia services and to those who provide unnecessary assistants at surgery. Lens replacements after cataract surgery would be reduced by adopting criteria that would ensure medical necessity, and excessive payments for lens replacements would be reduced. Finally, the MEI would be recomputed for past years using a "rental equivalence" measure of housing prices in the Consumer Price Index, which forms part of the MEI.

The Administration also proposes to freeze, during 1987, Medicare's reimbursement for laboratory services performed in clinical laboratories, physicians' offices, and in hospital out-patient departments; to revise payment rates for end-stage renal disease treatments where recent data indicate that payments may be too high; and to eliminate payments to providers for services not covered under Medicare for which a partial payment is currently made.

CBO Reestimates

CBO projects higher growth in baseline spending for Medicare than does the Administration, primarily for the Hospital Insurance program. CBO's projected payments to hospitals under the prospective payment system (PPS) show higher growth for both economic and technical reasons. The prices of goods and services in the hospital market basket used to determine hospital payments are higher in 1990 and 1991 under CBO's assumptions. Also, reflecting a continuation of recent trends, CBO projects somewhat larger changes in the mix of cases toward those with higher payment rates. By 1991, the CBO projections are about 3 percent above those of the Administration.

FUNCTION 600: INCOME SECURITY

MAJOR SPENDING CHANGES PROPOSED FOR BUDGET FUNCTION 600: INCOME SECURITY (By fiscal year, outlays in billions of dollars)

Item	1987	1988	1989	1990	1991	Cumulative Five-Year Changes
CBO Baseline	124.1	130.6	135.2	140.5	148.2	
Proposed Changes						
Retirement and Disability						
Civil Service	-0.6	-1.3	-1.9	-2.5	-3.3	-9.6
Military and Other	-0.5	-0.7	-0.8	-0.9	-0.9	-3.8
Housing Assistance	-2.1	-3.2	-3.6	-4.0	-4.1	-17.0
Nutrition	-0.9	-1.1	-1.2	-1.3	-1.5	-5.9
Aid to Families with Dependent Children	-0.1	-0.2	-0.2	-0.2	-0.2	-0.7
Food Stamps	-0.2	-0.3	-0.4	-0.5	-0.5	-1.9
Pension Benefit Guaranty Corporation	-0.2	-0.2	-0.1	-0.1	-0.1	-0.7
Low-Income Energy	0.2	0.1	0.1	a/	-0.1	0.2
Refugee Assistance	-0.1	-0.1	-0.1	-0.1	-0.1	-0.4
Other	-0.1	-0.1	-0.1	-0.1	-0.1	-0.4
Total	-4.6	-6.9	-8.3	-9.6	-10.8	-40.1
President's 1987 Budget as Estimated by CBO	119.5	123.7	127.0	130.9	137.4	
President's 1987 Budget	118.4	123.1	125.7	128.3	132.5	
CBO Reestimates	1.1	0.5	1.2	2.6	4.9	10.4

Proposed Policy Changes

The President's proposals in income security would reduce outlays below CBO's baseline by 7 percent in 1991 and would save $40.1 billion over the 1987-1991 period. Several of the President's major policy themes are evident in the income security cuts. The Administration proposes to reduce retirement and disability benefits of government employees to, in its view, make them more comparable with private-sector benefits. The budget also proposes to curtail housing assistance by almost 25 percent, and shift to